9/8/88 U1120-1 A

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 335 August 1988

Business in Virginia July, 1988

July 1987 was an exceptional month in Virginia, with statewide gains for all nine of our economic indicators as reported in last August's issue plus increases for the lagged series published in the September issue. July was the only month during 1987 that all of the indicators rose, compared to the same month in the preceding year. Not all of the state's urban areas had only pluses that month, but 15 of the 17 areas we track did experience advances in their City Indexes.

Well, that was last year. This July we could not match last year's levels for most indicators - six of our nine indicators fell short. We will look at the three exceptions first and then analyze the declining series.

The three gainers this year were non-agricultural employment (lagged), electricity consumed, and building permits. Payroll jobs were up 3.9 percent this June versus June of 1987 (and will be up almost as much in July), reflecting the continued expansion of capacity in Virginia's businesses by old and new firms. The July growth for electricity consumed of 3.4 percent indicates more utilization of our facilities, both commercial and residential.

The third indicator that rose, however, more clearly reflects the optimism of Virginia businesses. Building permits statewide jumped 13.2 percent in July, bringing the cumulative January-July advance to 11.4 percent. That strong level of planned construction may be scaled back in the coming months in the face of rising interest rates and lower demand for new housing, as reflected already in the 5.3 percent decline in single family home sales in Virginia during July reported by the Virginia Association of Realtors.

In sum, the positive movements of these three indicators are welcome news but an insufficient basis for expecting Virginia's overall real growth in 1988 to match the 1987 rate.

Negatives dominate this month's statistics. As shown in Table II, six of our economic indicators fell on a statewide basis when compared to the same month last year. Most of the declines were moderate – 5 percent or less. The exception was July's bank debits (measuring spending from checking accounts), which dropped 15.8 percent. The volume of bank debits is highly volatile with large and erratic monthly swings, so any one month's data may not be representative. However, debits also were down in June and have experienced a cumulative 7.2 percent fall for January-July. Those results indicate total spending by customers of our sample of financial institutions is lower than last year.

Decreases in consumer demand were signaled by three of our indicators. New car registrations statewide fell 3.9 percent in July, following a 10.3 percent year-over-year drop in June. Automobile demand clearly is lower than last year and has been propped up only by substantial incentives and price breaks from the dealers.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change July, 1988 from July 1987

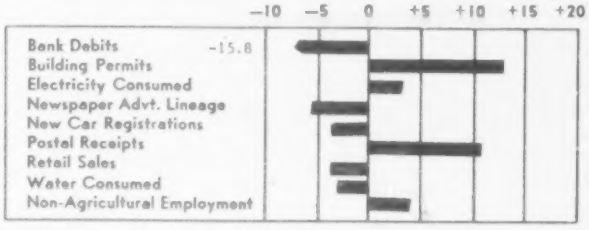

Chart II

City Indices

Percentage Change July, 1988 from July 1987

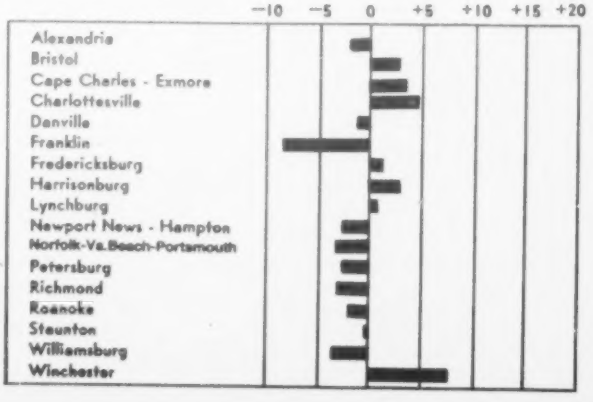

TABLE I July, 1988

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977). Base Period = 100.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	June NON AGRICULTURAL EMPLOYMENT‡	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State	111.1	130.0	140.3	110.2	99.3	147.0	107.6	108.7	172.7	418.6
Alexandria	111.1	130.0	140.3	110.2	N.A.	147.0	107.6	108.7	190.1	N.A.
Bristol	140.8	N.A.	91.7	96.0	80.9	140.3	100.1	238.2	173.2	350.1
Cape Charles - Exmore	118.9	N.A.	181.0	270.4	N.A.	120.0	N.A.	91.6	109.9	271.6
Charlottesville	108.4	130.4	88.8	108.0	N.A.	158.8	101.8	146.8	248.1	327.9
Danville	122.8	N.A.	173.0	120.7	109.9	139.8	102.5	98.3	N.A.	263.5
Franklin	143.2	N.A.	174.0	120.7	95.2	177.4	96.0	101.8	114.6	306.3
Fredericksburg	176.1	222.2	1001.1	N.A.	180.2	258.8	N.A.	108.4	214.5	1430.0
Harrisonburg	119.1	171.1	86.6	N.A.	150.9	169.4	N.A.	N.A.	158.4	320.1
Lynchburg	99.1	98.2	79.4	103.9	N.A.	119.8	101.9	132.7	192.9	920.0
Newport News - Hampton	141.4	N.A.	193.1	132.2	96.[illegible]	109.7	107.[illegible]	134.6	164.0	N.A.
Norfolk - Va. Beach - Portsmouth	171.3	242.6	276.1	148.6	[illegible]	177.0	[illegible]	168.0	230.4	N.A.
Petersburg	129.9	86.0	202.9	N.A.	28.6	91.8	113.0	104.7	138.4	252.5
Richmond	140.1	191.8	97.6	107.1	107.1	146.9	101.3	143.3	158.7	375.4
Roanoke	148.4	186.7	141.6	110.2	104.1	89.2	122.7	150.0	167.9	385.1
Staunton	162.6	142.9	86.1	N.A.	N.A.	105.4	N.A.	N.A.	153.6	245.6
Williamsburg	180.1	181.1	85.4	211.8	N.A.	166.1	N.A.	141.0	133.7	356.6
Winchester	178.1	197.1	122.1	140.9	210.5	181.1	N.A.	N.A.	N.A.	N.A.

TABLE II July, 1988

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	June NON AGRICULTURAL EMPLOYMENT‡	WATER CONSUMED	RETAIL SALES †	June RETAIL SALES ‡
The State	-2.5	-1.2	2.0	-1.0	-1.0	-1.9	1.3	-0.7	-1.0	-2.4
Alexandria	-0.5	9.0	-16.8	[illegible]	N.A.	-4.9	3.0	0.2	-7.7	-7.0
Bristol	2.0	5.6	-20.1	0.1	-22.9	15.3	4.0	13.5	-3.4	-9.3
Cape Charles - Exmore	3.8	N.A.	29.0	30.0	N.A.	7.9	N.A.	-29.8	0.3	-6.9
Charlottesville	3.5	-19.5	-32.1	3.2	N.A.	19.0	1.7	-1.6	6.3	1.6
Danville	-1.1	N.A.	-40.0	-8.8	-14.0	3.8	2.2	-8.3	N.A.	18.8
Franklin	-8.8	N.A.	0.0	-10.7	-8.1	24.7	N.A.	-9.9	-21.9	4.5
Fredericksburg	2.0	19.2	-11.9	N.A.	2.8	N.A.	N.A.	-4.7	-1.1	13.1
Harrisonburg	4.8	7.8	-41.3	9.0	3.1	23.0	N.A.	N.A.	-5.2	8.9
Lynchburg	0.8	2.0	-20.0	1.3	N.A.	-8.0	1.1	3.4	0.1	5.6
Newport News - Hampton	-6.0	N.A.	-38.0	-6.0	-2.[illegible]	-14.1	1.[illegible]	-9.3	-2.3	-4.4
Norfolk - Va. Beach - Portsmouth	-2.6	-11.3	0.9	0.6	[illegible]	-8.4	[illegible]	-6.6	-1.6	-5.7
Petersburg	-2.4	-44.5	148.4	N.A.	-18.9	-9.1	1.0	-2.8	-0.4	-1.9
Richmond	-2.7	-19.3	-30.5	2.6	-4.8	-11.4	0.7	-5.3	1.0	
Roanoke	-1.3	-2.8	138.	-0.9	-11.9	-9.2	-1.6	2.9	0.2	-0.9
Staunton	-0.2	-11.8	47.1	N.A.	N.A.	-3.8	N.A.	N.A.	6.5	-12.7
Williamsburg	-1.5	-8.5	-40.6	4.2	N.A.	-18.8	N.A.	2.0	-2.0	-8.9
Winchester	1.4	2.2	-47.0	2.3	3.8	14.7	N.A.	N.A.	N.A.	12.0

TABLE III

Percentage Change January - July from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	Jan.-July NON AGRICULTURAL EMPLOYMENT‡	WATER CONSUMED	RETAIL SALES †	Jan.-July RETAIL SALES ‡
The State	-1.1	11.4	4.5	-0.7	2.7	4.3	0.2	-1.6	3.4	
Alexandria	-0.6	10.8	70.4	3.5	N.A.	3.1	7.1	1.5	-7.7	-0.1
Bristol	0.4	N.A.	-2.2	2.9	-11.8	16.5	5.9	9.4	-5.7	-1.7
Cape Charles - Exmore	-2.4	N.A.	76.0	18.8	N.A.	17.0	N.A.	N.A.	-11.8	-6.8
Charlottesville	3.7	-36.1	18.8	3.5	N.A.	8.0	5.0	2.8	6.4	5.8
Danville	4.4	N.A.	53.4	-1.8	1.5	13.7	2.0	-8.8	N.A.	18.0
Franklin	-5.4	N.A.	36.9	-1.3	4.8	-4.5	N.A.	-8.7	-5.0	-18.6
Fredericksburg	3.2	4.5	-45.9	N.A.	-6.2	5.8	N.A.	15.5	-0.2	2.2
Harrisonburg	5.5	4.7	-9.6	N.A.	16.6	1.8	N.A.	N.A.	0.9	12.0
Lynchburg	1.7	2.0	-20.9	3.2	N.A.	6.6	1.0	1.2	0.5	0.8
Newport News - Hampton	-2.4	N.A.	6.8	1.6	-2.[illegible]	-8.0	3.[illegible]	-8.1	-1.3	-4.1
Norfolk - Va. Beach - Portsmouth	-0.3	-11.0	5.2	4.3	[illegible]	-7.0	[illegible]	-0.1	0.3	-1.7
Petersburg	2.5	-36.5	-4.8	N.A.	-9.1	11.2	1.[illegible]	7.7	0.8	-0.3
Richmond	2.0	-8.0	-12.7	4.2	1.7	0.9		6.8	-1.2	4.5
Roanoke	1.7	0.6	40.9	3.3	-1.1	-2.4	-0.3	4.1	0.3	9.7
Staunton	8.2	-1.3	10.6	N.A.	N.A.	9.8	N.A.	N.A.	11.8	-4.2
Williamsburg	1.1	2.3	66.2	4.0	N.A.	1.3	N.A.	2.3	0.6	-1.7
Winchester	7.3	8.7	-37.4	1.9	1.7	12.0	N.A.	N.A.	N.A.	11.5

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

‡Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

—Only total MSA data are available for these areas

Retail trade in general also is short of last summer's levels in Virginia. Retail sales subject to Virginia's 4.5 percent general sales tax retreated 2.4 percent in June (latest data available) after only a very modest 2.0 percent advance in May. If these figures were adjusted for inflation, both months would show a decrease in real terms.

The Bureau's sample of retail stores reported a 3.0 percent fall in sales per store for July, a larger drop than the 1.4 percent in June but less than May's 4.3 percent. Thus, our own sample and the state sales tax receipts both are delivering the same message: retail sales in Virginia this summer so far are below last year's levels. For the same period, comparable national figures show gains. Retail sales (excluding the automobile group) nationally rose 5.2 percent in June and 4.8 percent in July compared to the same months in 1987.

By region, the decreases are concentrated at the edges or "corners" of the Commonwealth: Northern Virginia, from Alexandria to the Rappahannock; Hampton Roads, from Williamsburg to Virginia Beach; the Eastern Shore; and the Bristol area. On the other hand, Fredericksburg, Charlottesville, Lynchburg, Danville, and the upper Shenandoah Valley are experiencing increases.

What has happened to Virginia's retail demand? We do not have enough information yet for an area-by-area analysis, but some general observations are possible. Last summer is a key to the answer. In June and July of 1987, taxable retail sales soared, up 13.0 and 11.8 percent, respectively. Virginians were on a buying spree, at home and in other parts of Virginia. Out-of-state visitors were spending freely too, with double-digit gains in tourist receipts being reported. Our retail trade hit exceptional levels that consumers, both Virginians and visitors, do not feel they can afford to repeat this summer. We will see gains in other months and for 1988 as a whole; but for June and July, last year's spending peaks remain unchallenged.

In sum, July 1987 exhibited some serendipity when many forces coincided to yield pluses in all indicators statewide and in most local areas. No such fortunate convergence occurred this July, so our current economic activity, especially in household demand, suffers by comparison. More generally, the June and July 1988 results are further strong evidence that the consumer boom of 1982-1987 in Virginia has ended, replaced by more moderate and sustainable rates of consumer demand growth. RLP

The Fed Means Business

Monetary policy "refers to actions taken by central banks to affect monetary and other financial conditions in pursuit of the broader objectives of sustainable growth of real output, high employment, and price stability" (*The New Palgrave: A Dictionary of Economics*, 1987).

Your central bank is the U.S. Federal Reserve System, chaired by Alan Greenspan (who assumed the office one year ago on August 11, 1987). The Federal Reserve is doing its job, actively pursuing in both word and deed a monetary policy intended to prevent a resurgence of high inflation while enabling the U.S. economy to continue to experience real growth.

On August 9, the Federal Reserve increased its discount rate (the interest rate it charges banks for short-term loans) from 6.0 percent to 6.5 percent. That is a clear signal of the Fed's strong resolve to squelch inflationary pressure – a dramatic way of showing there is no moratorium on monetary policy, no shifting into a neutral stance until after the November elections.

The discount rate increase adds credence to Chairman Greenspan's mid-year testimony to Congress on July 13. It is worthwhile to quote from that testimony at some length, to show the perspective and intent of the Federal Reserve:

> *Considering the already limited slack in available labor and capital resources, a leveling of the unemployment and capacity utilization rates is essential if more intense inflationary pressures are to be avoided in the period ahead. Otherwise, aggregate demand would continue growing at an unsustainable pace and would soon begin to create a destabilizing inflationary climate. Supply conditions for materials and labor would tighten further and costs would start to rise more rapidly; businesses would attempt to recoup profit margins with further price hikes on final goods and services. These faster price rises would, in turn, foster an inflationary psychology, cut into workers' real purchasing power, and prompt an attempted further catchup of wages, setting in motion a dynamic process in which neither workers nor businesses would benefit. The hard-won gains in our international competitiveness would be eroded, with feedback effects depressing the exchange value of the dollar. Excessive domestic demands and inflation pressures in this country, with its sizable external deficit, would be disruptive to the ongoing international adjustment of trade and payments imbalances.*
>
> *The costs to our economy and society of allowing a more intense inflationary process to become entrenched are serious. As the experience in the past two decades has clearly shown, accelerating wages and prices would have to be countered later by quite restrictive policies, with unavoidable adverse implications for production and employment. The financial health of many individual and business debtors, as well as of some of their creditors, then would be threatened. The long-run costs of a return to higher inflation and the risks of this occurring under current circumstances are sufficiently great that Federal Reserve policy at this juncture might be well advised to err more on the side of restrictiveness rather than of stimulus.*
>
> *The FOMC [Federal Open Market Committee] believes that efforts to contain inflation pressures and sustain the economic expansion would be fostered by growth of the monetary aggregates over 1988 well within their reaffirmed 4 to 8 percent annual ranges, followed by some slowing in money growth over the course of next year.*
>
> *For 1989, the FOMC has underscored its intention*

to encourage progress toward price stability over time by lowering its tentative ranges for [the growth of] money and debt.

The strong intent voiced in these statements was supported at the time by acknowledgment that the Fed had indeed begun in late March a series of restraining actions to slow monetary growth and nudge up short-term interest rates. However, many analysts felt those actions would not be enough to hold real output growth within the sustainable range where the inflation rate might remain low and stable. The nation's real growth in the first two quarters of 1988 already has been outside of the sustainable range, which tops out at around 3 to 3.5 percent today. First quarter real Gross National Product was 4.8 percent higher than in the first quarter of 1987; and second quarter output was 4.3 percent above last year. We do not have enough slack in idle equipment or labor to grow at rates above 4 percent for many more quarters before inflation moves into the 6 to 8 percent range, accelerating rapidly. If that were allowed to happen, with unacceptably high inflation a fact rather than a possibility, then eliminating the inflation would require a very restrictive monetary policy, essentially guaranteeing a recession. Nearly every forecaster's recession scenario up until August hypothesized that the Fed would do too little, too late this year to avoid higher inflation and then, by late 1989, feel compelled to fight inflation with a sharp tightening of money growth, causing a recession in 1990.

Thus, the Fed's August 9 action is a welcome antidote for inflationary fears: the Fed acted sooner and more decisively than expected to try to rein in our real growth and hold it to a more moderate rate in the 2 to 3 percent range. By doing so now they have, in my opinion, improved the odds that the U.S. economic expansion will survive not only through its seventh year, 1989, but through its eighth birthday on December 1, 1990.

Thank you, Chairman Greenspan, for a very appropriate and propitious ending to your first year as Chairman of the Board of Governors. RLP

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

Roy L. Pearson Director, Bureau of Business Research
John C. Jamison, Dean, School of Business Administration

COLLEGE OF WILLIAM AND MARY
BUREAU OF BUSINESS RESEARCH
SCHOOL OF BUSINESS ADMINISTRATION
WILLIAMSBURG, VIRGINIA 23185

Non-Profit
Organization
U.S. Postage
PAID
Williamsburg
Virginia
Permit No. 26

ADDRESS CORRECTION REQUESTED